

**CITY OF LODI  
INFORMAL INFORMATIONAL MEETING  
"SHIRTSLEEVE" SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, DECEMBER 4, 2001**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, December 4, 2001 commencing at 7:05 a.m.

**A. ROLL CALL**

Present: Council Members – Hitchcock (arrived at 7:07 a.m.), Howard, Land, Pennino and Mayor Nakanishi

Absent: Council Members – None

Also Present: City Manager Flynn, City Attorney Hays, and City Clerk Blackston

**B. CITY COUNCIL CALENDAR UPDATE**

City Clerk Blackston reviewed the weekly calendar (filed).

**C. TOPIC(S)**

C-1 "City Project Financing"

City Manager Flynn explained that there are two components to the City financing proposal: 1) a recommendation that Electric Utility be authorized to issue \$10.2 million worth of taxable Certificates of Participation (COP) to raise working capital, and 2) \$23.5 million, which includes \$12 million for a new public safety building, \$5 million for a parking structure, \$3 million for refurbishing the current public safety building, \$3.5 million set aside for refurbishing Fire Station #2, and design work on Parks and Recreation projects and the Animal Shelter.

Finance Director McAthie introduced George Wolf and Doug Auslander of Salomon Smith Barney and Alex Burnett and Cameron Parks of Public Financial Management (PFM).

With the aid of overheads (filed) Alex Burnett reported that the current bond buyer revenue bond index is 5.40. Rates have trended up recently and the volatility is expected to continue. The objective of refunding the Electric Utility outstanding bond is to produce interest rate savings and to take some of the nominal proceeds remaining from the 1999 issue and buy down the refunding. The net present value savings are estimated at approximately \$5.3 million. Issuing \$10.2 million of COPs will bolster reserves for Electric Utility and amortize some of the costs that have resulted in the draw down of those reserves over an eight-year period.

Council Member Hitchcock disclosed that during a dinner meeting with Mr. Wolf and Mr. Auslander last night she pointed out that a recent conference on bond financing emphasized the importance of the present value of savings.

In reply, Mr. Burnett stated that taking out \$47 million of bonds would generate \$5.4 to \$4.5 million. \$4.5 million is under 10% present value savings. He believed it to be an efficient refunding and noted that the Council could provide direction on minimum savings targets, below which, the transaction would not be executed.

Council Member Hitchcock asked what risks are involved.

Mr. Burnett stated that if an interest rate swap is used the City would be entering into a third party contract whereby its contractual obligations would help mitigate and otherwise hedge any variable rate exposure on the variable rate bonds that the City would issue. The risk involved is whether the third party (Salomon Smith Barney) would meet its

contractual obligation and pay the variable rate debt. Mr. Burnett reported that if the highest marginal tax rate/bracket dropped to 20%, the variable rate bonds would be more expensive, which would incrementally affect the debt service numbers.

Mr. Burnett stated that there is an option to either issue straight fixed-rate bonds, or issue a variable rate and enter into a contract that would swap the payments to a fixed rate. He proposed using straight fixed-rate bonds. PFM would fund an escrow of approximately \$13.3 million. There would be State grant money of \$4 million and an equity contribution from the City that would be accumulated out of the \$1.5 million set aside from the annual budget. There is approximately \$23.5 million generated for projects. A debt service reserve fund of \$2.9 million would be held for the benefit of the City and would be returned and used to make the final payment(s).

Mayor Pro Tempore Pennino stated that he was not in favor of moving forward with the parking structure right away, as he preferred to allow time for downtown visitors to get used to walking from the parking structure on Sacramento Street and through the recently renovated area on Elm Street. He did agree with securing the \$5 million funding, however, and suggested that it be listed under "other projects."

Discussion ensued regarding the need for the parking structure and whether to borrow funds for this purpose.

Mr. Burnett explained that under tax law there has to be a reasonable expectation to spend 85% of the proceeds within three years. He reported that there is approximately \$14.8 million outstanding from the 1995-96 COP, which were used in part for Hutchins Street Square and the downtown revitalization. The debt service on the proposed financing is \$1.27 million a year. The City has been setting aside \$1.5 million, which would mean that including this debt service, the City would be setting aside approximately \$2.7 to \$2.8 million. He reviewed scenarios A through D (as indicated on page 9 of the PFM report filed).

In response to Council Member Land, Mr. Burnett stated that financing fees would total \$800,000.

Mr. Flynn anticipated that by late spring or early summer staff would be prepared to bring the Parks and Recreation projects back to Council for financing consideration. He stated that the \$3.5 million in the proposed financing is for contingency, design, and repairs to Fire Station #2.

Discussion ensued regarding the various scenarios and whether to fund the \$3.5 million.

Mr. Flynn stated that revenues are anticipated to increase and sales tax continues to grow. Even factoring in possible losses from the Vehicle License Fee, the City's General Fund is projected to increase through the year 2010.

PUBLIC COMMENTS:

- Bob Johnson pointed out that it is not clear in the staff report that the \$3.5 million is for design of all proposed Parks and Recreation projects.

Council Member Hitchcock and Mayor Pro Tempore Pennino expressed concern regarding the Electric Utility refinancing.

Mr. Flynn explained that due to extraordinary unanticipated costs last year a large amount of City cash was used to pay electric bills. The financing proposal would replenish cash reserves and allow for the reduction of electric rates to customers.

Electric Utility Director Vallow felt that it would be unfair to continue the Market Rate Adjustment for a longer period when there is an alternative and urged Council to support the Electric Utility financing proposal.

**D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS**

None.

**E. ADJOURNMENT**

No action was taken by the City Council. The meeting was adjourned at 8:43 a.m.

ATTEST:

Susan J. Blackston  
City Clerk

## Mayor's & Council Member's Weekly Calendar

### WEEK OF December 4, 2001

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#### Tuesday, December 4, 2001

7:00 a.m. Shirtsleeve Session  
1. City Project Financing

5:30 - 7:30 p.m. Ribbon Cutting and Grand Opening of Gold Coast Wireless, 1721 S. Cherokee Lane #2.

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#### Wednesday, December 5, 2001

5:00 - 7:30 p.m. Pennino. San Joaquin Partnership and Business Council Holiday Reception, Brookside Country Club, Stockton.

5:30 - 7:00 p.m. Pennino. Reception welcoming and introducing Senator Charles Poochigian, hosted by General Mills, Woodbridge Golf and Country Club.

7:00 p.m. City Council meeting  
No Closed Session items  
2 Presentations  
10 Consent Calendar items  
No Public Hearings  
No Regular Calendar items  
Reorganization of the City Council  
~Reception to follow the meeting

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#### Thursday, December 6, 2001

3:00 - 4:30 p.m. Lodi Conference and Visitors Bureau community meeting, Chamber of Commerce office.

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#### Friday, December 7, 2001

6:00 p.m. Lodi Association of Realtors Annual Installation Dinner and Christmas Party, Woodbridge Golf & Country Club. Dinner at 7:00 p.m.

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#### Saturday, December 8, 2001

1:00 p.m. Lodi VFW Post 1968 observance of Pearl Harbor, Lodi Public Library.

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#### Sunday, December 9, 2001

5:00 - 7:00 p.m. Lodi Historical Society Christmas Open House, Hill House Museum.

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#### Monday, December 10, 2001

7:00 a.m. Pennino. Breakfast hosted by Dean Andal to introduce key community leaders to Steve Rankin, the Scout Executive for local Boy Scout organization, the Greater Yosemite Council, Yosemite Club, Stockton.

**Disclaimer: This calendar contains only information that was provided to the City Clerk's office**

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## CITY OF LODI

## COUNCIL COMMUNICATION

**AGENDA TITLE:** Discussion regarding the sale of (1) approximately \$32,100,000 Certificates of Participation (COPs) to refund the current General Fund COPs and to raise \$15,000,000 net new proceeds through new COP Financing for construction of General Fund Capital Projects, and (2) approximately \$57,300,000 Electric Revenue COPs to refund the current Electric Revenue COPs and to raise \$10,000,000 in working capital for the Electric Utility

**MEETING DATE:** December 4, 2001

**PREPARED BY:** City Manager, Electric Utility Director and Finance Director

**RECOMMENDED ACTION:** That the City Council give staff direction on the sale of (1) approximately \$32,100,000 Certificates of Participation (COPs) to refund the current General Fund COPs and to raise \$15,000,000 net new proceeds through new COP Financing for construction of General Fund Capital Projects, and (2) approximately \$57,300,000 Electric Revenue COPs to refund the current Electric Revenue COPs and to raise \$10,000,000 in working capital for the Electric Utility

**BACKGROUND INFORMATION:** The 2001-03 Financial Plan and Budget expressed the need to finance a number of General Fund capital projects over the next several years including the Public Safety Building Remodel/Expansion (\$14.5m), a Parking Structure (\$5.5m), DeBeneditti Park/G-Basin (\$6.20m), Indoor Sports Facility (\$5.9m), an Aquatics Center (\$3m), and an Animal Shelter Facility (\$2.5m).

Past financing programs included the issuance of a \$5 million Certificates of Participation (COP) in 1995, and \$10,120,000 COPs in 1996. The combined annual debt service on these COP's is approximately \$1,268,000. Given the current low interest rate environment, the City has an opportunity to issue new COPs to legally defease the 1995 and 1996 COP's to their respective call dates and generate debt service savings for the General Fund. At current rates, the size of a stand-alone refunding issue would be approximately \$14,800,000 and the resulting present value savings would be approximately \$560,000.

Staff is recommending the sale of such refunding COPs and an additional \$17,300,000 of General Fund COPs to raise \$15,000,000 in net new proceeds (\$32,100,000 total issue size). The new COP funds would be combined with the \$4m State grant and the \$4.5m budgeted set aside to finance the Public Safety Building remodel/expansion, and the Parking Structure. Excess construction funds would be used toward the DeBeneditti Park/G-Basin project. Using an overall level debt service structure, the annual debt service on the total new COPs would be approximately \$1,660,000. This represents an increase of about \$392,000 above the current annual debt service level. The new COPs (like the existing COPs) would be secured by annual lease payments from the City's General Fund.

**APPROVED:** \_\_\_\_\_

  
H. Dixon Flynn - City Manager



## CITY OF LODI

## COUNCIL COMMUNICATION

The financing of the balance of the DeBeneditti Park/G-Basin, the Indoor Sports Facility, an Aquatics Center, and the Animal Shelter Facility will be brought back to Council for discussion at a later date.

As with the General Fund, the current low interest rate environment, gives the City an opportunity to issue new Electric Revenue Certificates of Participation (COPs) to legally defease the approximately \$43,900,000 1999 COP's to their call date and generate debt service savings. At current rates, the present value savings from an optimally structured refunding issue would be in excess of \$5 million. In addition, the Electric Utility current believes that approximately \$6 million in the existing construction fund is no longer needed for its original purpose, and could be contributed to the refunding escrow. This contribution would reduce the size of the refunding issue (to approximately \$47,100,000), but would not affect the savings. Annual debt service after 2010 would be reduced by approximately \$1,160,000.

In addition, the Electric Utility proposes to issue approximately \$10,200,000 of taxable Electric Revenue COPs to raise working capital. This will provide additional flexibility to meet cashflow needs stemming from the unusual power market conditions of the past 12 months. Debt service on this taxable issue would be a level annual amount of approximately \$1,600,000, with a final maturity in eight years.

The combined issue size would be \$57,300,000. The COPs would be secured by net revenues from the Electric Utility.

George Wolf from Salomon Smith Barney, Alex Burnett from Public Financial Management, and City staff will be in attendance at the shirtsleeve meeting.

FUNDING:      None required at this time.

APPROVED: \_\_\_\_\_

H. Dixon Flynn – City Manager

# City of Lodi Financing Opportunities

**December 4, 2001**

*presented by*

**Public Financial Management**

505 Montgomery Street, Suite 800

San Francisco, CA 94111

415 982-5544

415 982-4513 fax



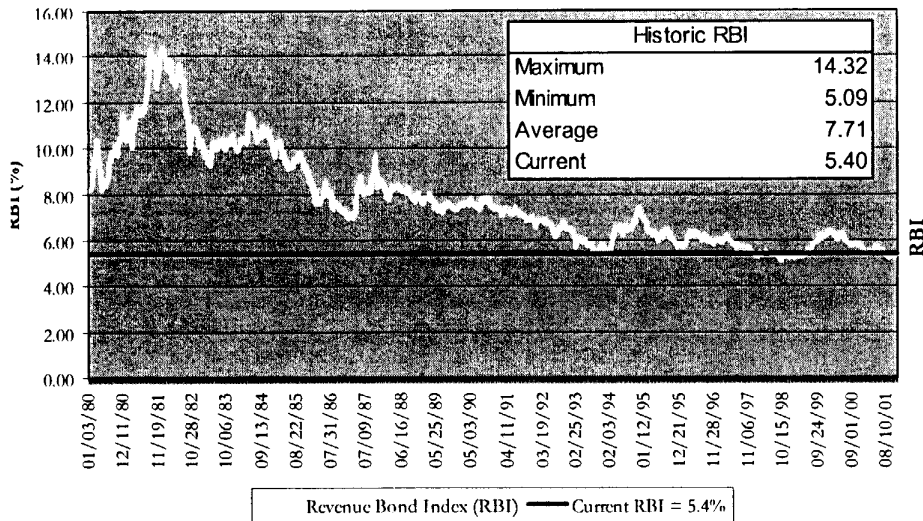
**City of Lodi**

# Since we last met ...

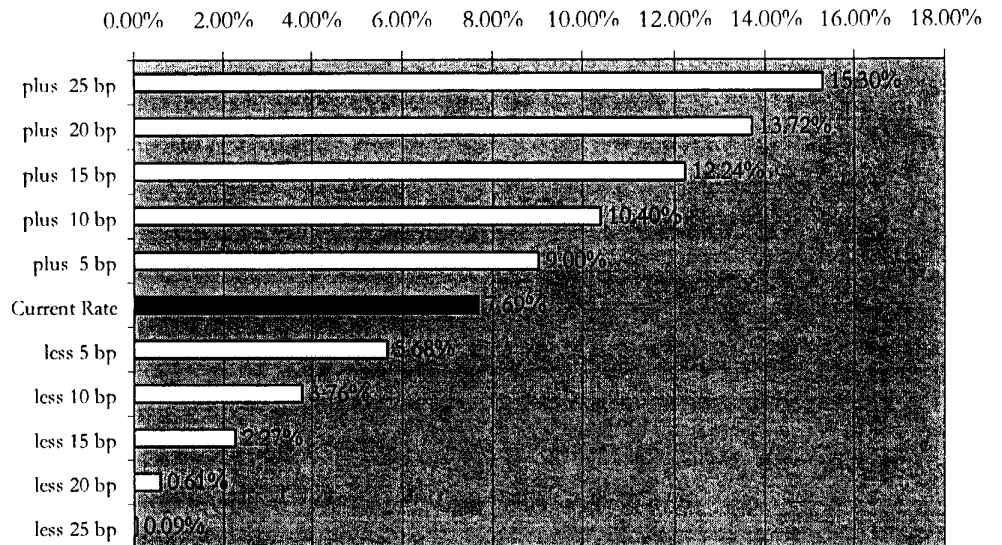


- Interest Rates have remained at historically low levels, but ...

Revenue Bond Index (RBI) Since 1980



Percentage of Time Revenue Bond Index (RBI) has been below Current Levels Since 1980



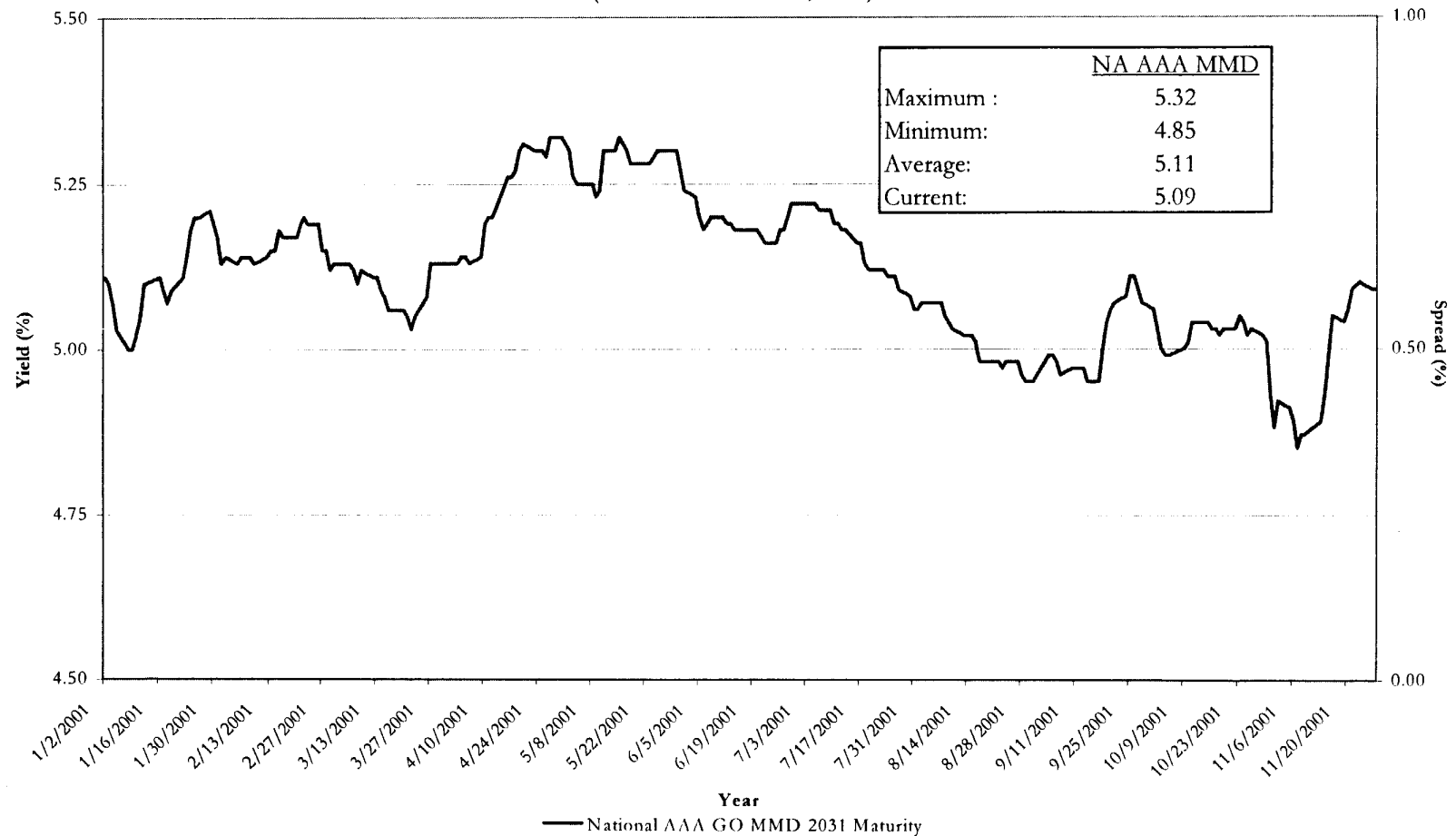


# Since we last met ...



- But there has been significant volatility over the past month.

National AAA General Obligation 30-Year Maturity  
(As of November 27, 2001)



# Outline of Projects – Electric Utility



## ***Refunding of Outstanding 1999 Electric Revenue Bonds***

- Current market rates provide the opportunity to refund all of the outstanding bonds to generate reduced debt service cost for the Utility.
  - Par Amount: \$47,095,000
  - Average Outstanding Interest Rate: 5.73%
  - Borrowing Rate (30-year term): 4.67%
  - Net Present Value Savings: approx. \$5,382,000

## ***Prepaid Power (Taxable)***

- Taxable financing to increase short-term reserves to enhance liquidity.
  - Par Amount: \$10,185,000
  - Borrowing Rate (8-year term): 5.64%
  - Annual Debt Service: approx. \$1,600,000



# Summary of Electric Utility Alternatives



Fiscal Year Ending	Outstanding Electric Utility Net Debt Service	Refunding of Outstanding Bonds	Prepaid Power (Taxable)	Total Lodi Electric Utility Debt Service <sup>(1)</sup>
6/30/2002	\$1,391,435	\$242,059	\$64,467	\$306,526
6/30/2003	1,391,435	1,980,480	1,607,460	3,587,940
6/30/2004	1,391,435	1,980,480	1,607,392	3,587,872
6/30/2005	1,391,435	1,980,480	1,611,696	3,592,176
6/30/2006	1,391,435	1,980,480	1,606,706	3,587,186
6/30/2007	1,391,435	1,980,480	1,608,022	3,588,502
6/30/2008	1,391,435	1,980,480	1,607,989	3,588,469
6/30/2009	1,391,435	1,980,480	1,611,161	3,591,641
6/30/2010	1,391,435	1,980,480	1,611,352	3,591,832
6/30/2011	4,941,435	1,980,480		1,980,480
6/30/2012	4,945,185	1,980,480		1,980,480
6/30/2013	4,941,360	1,980,480		1,980,480
6/30/2014	4,945,135	1,980,480		1,980,480
6/30/2015	4,941,810	3,780,480		3,780,480
6/30/2016	4,942,315	3,779,785		3,779,785
6/30/2017	4,942,533	3,780,936		3,780,936
6/30/2018	4,939,454	3,778,723		3,778,723
6/30/2019	4,941,313	3,778,145		3,778,145
6/30/2020	4,946,716	3,783,993		3,783,993
6/30/2021	4,946,081	3,785,846		3,785,846
6/30/2022	4,944,212	3,783,704		3,783,704
6/30/2023	4,947,457	3,787,566		3,787,566
6/30/2024	4,940,638	3,782,014		3,782,014
6/30/2025	4,943,338	3,782,256		3,782,256
6/30/2026	4,944,334	3,782,872		3,782,872
6/30/2027	4,943,382	3,783,652		3,783,652
6/30/2028	4,945,139	3,784,386		3,784,386
6/30/2029	4,944,400	3,784,863		3,784,863
6/30/2030	4,946,386	3,784,873		3,784,873
6/30/2031	4,944,514	3,784,206		3,784,206
6/30/2032	4,945,325	3,782,652		3,782,652
Total	\$121,285,376	\$92,098,771	\$12,936,242	\$105,035,014

(1) Excludes NCPA and TANC debt service



# Summary of General Fund Past Events



- **PFM has met with the City Council several times over the past two years to review the General Fund and the potential to finance a new Public Safety Building.**
- **Met with City Council on March 30, 2000 to evaluate the financing of the public safety complex.**
  - Project Cost: \$18,350,000
  - Annual Debt Service: approximately \$1,580,000
  - Borrowing Rate: 6.13%
- **Met with City Council on June 27, 2001, to review budget results.**
- **Met with City Council on October 22, 2001, to review Public Safety Building financing structures.**

# Outline of Projects – General Fund



**The City has several potential projects it is considering; including the Public Safety Building and Parks and Recreation.**

## Sources of Funds (\$000):

Par Amount of Bonds	32,060
Cash Contribution	4,500
State Grants	4,000
<u>Total Sources of Funds</u>	<u>\$40,560</u>

## Uses of Funds (\$000):

New Public Safety Building	\$12,000
Parking Structure	5,000
Old Public Safety Building Remodel	3,000
Other Projects	3,500
<u>Total Projects</u>	<u>\$23,500</u>

Refunding Escrow Deposits                      \$13,313

Debt Service Reserve Funds                      \$2,936

Cost of Issuance                                      \$812

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Total Uses of Funds:                                      \$40,560



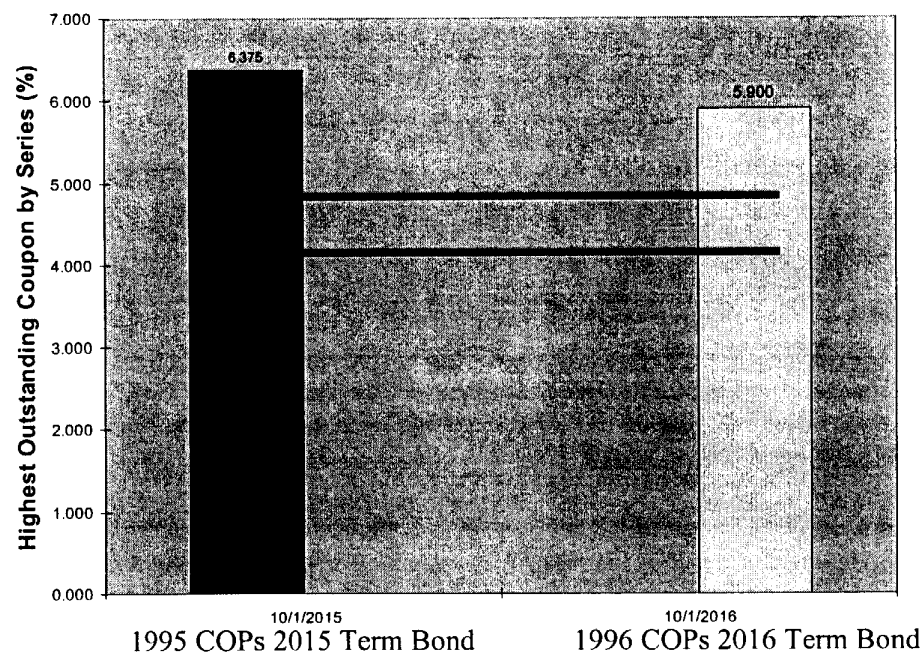


# General Fund Market Opportunities

## *Refunding of Outstanding 1995 and 1996 COPs*

- Current market rates also provide the opportunity to refund all of the outstanding COPs to generate reduced debt service costs for the General Fund.

– Par Amount:	\$14,845,000
– Borrowing Rate (16-year term):	4.04%
– Annual Debt Service Savings:	approx. \$60,000
– Net Present Value Savings:	approx. \$560,000



← Public Safety Building TIC (4.87%)

← Refunding TIC (4.04%)



# Summary of General Fund Alternatives



Fiscal Year Ending	Outstanding General Fund Net Debt Service	Scenario A Refunding Only		Scenario B Level with PSB Only		Scenario C Level Aggregate PSB + \$3.5 mm Add. Proceeds		Scenario D Level New Money PSB + \$3.5 mm Add. Proceeds	
		Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Financing <sup>(2)</sup>	Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Financing <sup>(2)</sup>	Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Financing <sup>(2)</sup>	Aggregate Net Debt Service <sup>(1)</sup>	Net Cost of Financing
6/30/2002	\$1,275,208	\$95,511	(\$257,978)	\$262,056	(\$91,433)	\$286,061	(\$67,428)	\$311,503	(\$41,987)
6/30/2003	1,267,891	1,243,010	(24,882)	1,806,059	538,167	1,435,155	167,264	1,973,741	705,849
6/30/2004	1,268,679	1,241,519	(27,159)	1,804,569	535,890	1,434,841	166,162	1,972,250	703,572
6/30/2005	1,267,361	1,242,408	(24,953)	2,032,433	765,072	1,660,674	393,313	2,264,260	996,899
6/30/2006	1,268,691	1,240,831	(27,860)	2,029,506	760,815	1,657,429	388,738	2,264,488	995,797
6/30/2007	1,267,411	1,241,930	(25,481)	2,028,620	761,208	1,657,794	390,383	2,266,467	999,056
6/30/2008	1,268,239	1,240,111	(28,127)	2,028,954	760,715	1,661,299	393,060	2,264,401	996,162
6/30/2009	1,261,154	1,235,343	(25,811)	2,025,382	764,228	1,662,832	401,678	2,258,242	997,089
6/30/2010	1,265,914	1,237,749	(28,165)	2,033,017	767,103	1,662,564	396,650	2,268,046	1,002,132
6/30/2011	1,262,151	1,237,259	(24,892)	2,026,911	764,760	1,660,563	398,412	2,258,880	996,729
6/30/2012	1,254,479	1,229,331	(25,148)	2,017,724	763,244	1,661,955	407,476	2,251,432	996,953
6/30/2013	1,252,487	1,228,719	(23,767)	2,019,968	767,481	1,661,547	409,060	2,250,208	997,721
6/30/2014	1,256,394	1,229,658	(26,735)	2,017,743	761,349	1,659,050	402,657	2,254,159	997,765
6/30/2015	1,251,506	1,226,847	(24,659)	2,015,687	764,180	1,659,236	407,730	2,252,796	1,001,290
6/30/2016	1,247,824	1,220,534	(27,290)	2,009,014	761,190	1,662,036	414,212	2,241,573	993,749
6/30/2017	828,748	803,542	(25,205)	1,589,315	760,567	1,657,619	828,871	1,827,337	998,590
6/30/2018				796,880	796,880	1,660,796	1,660,796	1,030,026	1,030,026
6/30/2019				797,960	797,960	1,661,259	1,661,259	1,030,649	1,030,649
6/30/2020				797,765	797,765	1,664,021	1,664,021	1,029,666	1,029,666
6/30/2021				796,370	796,370	1,659,241	1,659,241	1,032,051	1,032,051
6/30/2022				793,755	793,755	1,656,875	1,656,875	1,032,651	1,032,651
6/30/2023				794,845	794,845	1,656,779	1,656,779	1,031,531	1,031,531
6/30/2024				794,571	794,571	1,658,817	1,658,817	1,033,636	1,033,636
6/30/2025				797,795	797,795	1,662,714	1,662,714	1,033,827	1,033,827
6/30/2026				794,534	794,534	1,658,506	1,658,506	1,032,126	1,032,126
6/30/2027				794,808	794,808	1,656,236	1,656,236	1,033,431	1,033,431
6/30/2028				798,387	798,387	1,660,572	1,660,572	1,032,648	1,032,648
6/30/2029				795,265	795,265	1,656,376	1,656,376	1,029,769	1,029,769
6/30/2030				795,442	795,442	1,658,517	1,658,517	1,029,666	1,029,666
6/30/2031				793,783	793,783	1,656,726	1,656,726	1,032,073	1,032,073
6/30/2032				796,787	796,787	1,664,452	1,664,452	1,031,639	1,031,639
Total	\$19,764,137	\$18,194,305	(\$648,114)	\$41,685,901	\$22,843,483	\$49,632,542	\$30,790,123	\$48,655,173	\$29,812,755

(1) Debt Service net of Capitalized Interest and Debt Service Reserve Fund Receipts

(2) Refunded Prior Debt Service in 2002 equals \$353,489



## Next Steps



– Council Approval of Bond Documents    December 12

– Pricing

Week of December 7

– Funding

Week of January 21

